

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Crystal Falls	County Iron
Audit Date 9/30/05	Opinion Date 11/23/05	Date Accountant Report Submitted to State: 12/16/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

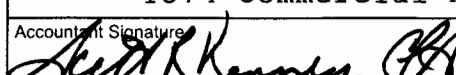
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Scott R. Kenney, CPA			
Street Address 1374 Commercial Ave. Suite 1		City Crystal Falls	State MI
		ZIP 49920	
Accountant Signature 			Date 12/16/05

CITY OF CRYSTAL FALLS
AUDITED FINANCIAL STATEMENTS
CRYSTAL FALLS, MICHIGAN

Fiscal Year Ended September 30, 2005

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SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Crystal Falls
Crystal Falls, Michigan 49920

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crystal Falls, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crystal Falls, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of September 30, 2005.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Crystal Falls, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

November 23, 2005

CITY OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 6.3% from a year ago - decreasing from \$6.660 million to \$6.240 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$396 thousand during the year (39.2% increase). This is primarily attributed to the curtailment of capital spending, a large increase in the underfunded status in the employee pension plan and significantly smaller transfers from the utility funds than in prior years. The business-type activities experienced virtually no change in net assets. This is attributed to the smaller transfers and the consumption of the loan proceeds for the electric system improvements and automation. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 743	\$ 742	\$ 763	\$ 616	\$ 1,506	\$ 1,358
Noncurrent Assets	<u>463</u>	<u>512</u>	<u>9,345</u>	<u>9,513</u>	<u>9,808</u>	<u>10,025</u>
Total Assets	\$ 1,206	\$ 1,254	\$10,108	\$10,129	\$ 11,314	\$11,383
Long-Term Debt Outstanding	\$ 519	\$ 142	\$ 4,271	\$ 4,370	\$ 4,790	\$ 4,489
Other Liabilities	<u>73</u>	<u>101</u>	<u>211</u>	<u>133</u>	<u>284</u>	<u>234</u>
Total Liabilities	\$ <u>591</u>	\$ <u>243</u>	\$ <u>4,482</u>	\$ <u>4,503</u>	\$ <u>5,074</u>	\$ <u>4,723</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 429	\$ 482	\$ 4,584	\$ 4,737	\$ 5,013	\$ 5,219
Restricted	83	45	91	950	174	995
Unrestricted	<u>103</u>	<u>584</u>	<u>950</u>	<u>(61)</u>	<u>1,053</u>	<u>446</u>
Total Net Assets	\$ 615	\$ 1,011	\$ 5,625	\$ 5,626	\$ 6,240	\$ 6,660

CITY OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2005

Unrestricted net asset—the part of net assets that can be used to finance day to day operations, decreased by \$481,000 for the governmental activities. This increase can be attributed primarily to the aforementioned transfers from the utility funds, increase in pension underfunding and revenues that continue to lag inflationary expense increases. The current level of unrestricted net assets for our governmental activities stands at \$103,000.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues						
Charges for Services	\$ 160	\$ 24	\$ 2,488	\$ 2,422	\$ 2,648	\$2,446
Operating Grants and Contributions	0	0	0	0	0	0
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes	\$ 302	\$ 290	\$ 0	\$ 0	\$ 302	\$ 290
State-Shared Revenues	415	518	0	0	415	518
Unrestricted Investment Earnings	35	37	28	19	63	56
Fines and forfeitures	2	6	0	0	2	6
Other	87	159	0	0	87	159
Transfers	<u>374</u>	<u>595</u>	<u>(374)</u>	<u>(595)</u>	<u>0</u>	<u>0</u>
Total Revenues	\$ 1,375	\$ 1,629	\$ 2,142	\$ 1,846	\$ 3,517	\$3,475
Program Expenses						
Legislative	\$ 11	\$ 14	\$ 0	\$ 0	\$ 11	\$ 14
General Government	903	560	0	0	903	560
Public Safety	335	380	0	0	335	380
Public Works	353	470	0	0	353	470
Recreation & Culture	135	147	0	0	135	147
Community betterment	34	33	0	0	34	33
Public Utilities	<u>0</u>	<u>0</u>	<u>2,142</u>	<u>1,995</u>	<u>2,142</u>	<u>1,995</u>
Total Expenses	\$ 1,771	\$ 1,604	\$ 2,142	\$ 1,995	\$ 3,913	\$3,599
Change in Net Assets	\$ (396)	\$ 25	\$ 0	\$ (149)	\$ (396)	\$ (124)

The City's net assets decreased slightly during the year and remain at a mediocre level. This can be attributed to conservative yet necessary planning and spending on past capital equipment and projects and implementation of cost savings measures particularly on health care. Housing and business construction within the City remained at a slow pace this past year.

CITY OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2005

Governmental Activities

The City's total governmental revenue decreased by approximately \$254,000 due to a further decrease in State Shared Revenues and smaller transfers from the business type funds in comparison to the prior year.

Expenditures increased by slightly more than \$167,000 during the year. This increase is comprised of a large increase in the pension plan's underfunded status completely eliminating the savings achieved by changes in the health care costs and implementation of Health Spending Accounts.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Water and Sewer Funds. The City provides cable television services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customers needs with power purchased from WE Energies. The City provides water and sewer services to residents, which come from the City's own systems. The Television Fund saw its revenues increase due to a rate increase implemented to offset rising costs. The Electric Fund saw its revenues remain constant with the prior year and expenditures rise due to increasing costs to purchase power in excess of the power generated. The City completed a project to automate the power plant operations. The cost of the project is expected to have a seven year payback. The Water Fund revenues also remained constant during the year and expenses decreased even though the City has continued its commitment to locate an updated water source for the City. The Sewer Fund revenues remained constant during the year and expenses increased substantially due to a large increase in depreciation.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a federal grant/loan. The City's major funds for 2004-2005 include the General Fund, Major Street Fund, Industrial Park Fund, Electric Reserve and Contingency Fund and each of the business type funds.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

CITY OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2005

General Fund Budgetary Highlights

Over the course of the year, the City Board amended the budget to take into account events during the year. The most significant revenue changes were in transfers from other funds which was decreased by \$220,000 due to a smaller amount actually being transferred. The City Council adopted a modification to the budget that matches amounts expended where the budgeted amount was not adequate to cover the actual expenditures.

Capital Asset and Debt Administration

At the end of the 2005 fiscal year, the City had more than \$9,300,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings, community television system, electric system, water and sewer systems. In addition, the City has invested significantly in roads and sidewalks within the City which are not included in the total. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2005-2006 calls for a 1 mill increase in property tax rates. The increase is the first in several years and is meant to help the City in covering increasing costs, maintaining services while facing declining revenues. Because of the impact of Proposal A and an insecure cash position, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

The City will continue its efforts to locate a new water source. As of the date of this report, the City is optimistic of entering into a long term agreement with Crystal Falls Township to accomplish this long standing goal. In addition, a plan has been implemented to assist the City in controlling the cost of its health care costs and will be reviewed during the forthcoming year to assure that the desired impact is achieved.

Business Type Funds will continue to be scrutinized carefully to be certain that rates and/or fees for services are proportionate to the related expenses.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF CRYSTAL FALLS
GOVERNMENT WIDE STATEMENT OF NET ASSETS
September 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 542,854	\$ 517,602	\$ 1,060,456
Receivables - net	140,176	235,847	376,023
Prepaid expenses	60,711	9,025	69,736
Other	0	0	0
Internal balances	0	0	0
TOTAL CURRENT ASSETS	\$ 743,741	\$ 762,474	\$ 1,506,215
RESTRICTED ASSETS - Cash and equivalents	\$ 0	\$ 374,691	\$ 374,691
NON-CURRENT ASSETS			
Property and equipment, net of depreciation	\$ 462,833	\$ 8,854,924	\$ 9,317,757
Other	0	115,343	115,343
TOTAL NON-CURRENT ASSETS	\$ 462,833	\$ 8,970,267	\$ 9,433,100
TOTAL ASSETS	\$ 1,206,574	\$ 10,107,432	\$ 11,314,006
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 45,607	\$ 60,969	\$ 106,576
Accrued and other liabilities	24,679	73,439	98,118
Interprogram payables	0	0	0
Current part of non-current liabilities	2,584	77,000	79,584
TOTAL CURRENT LIABILITIES	\$ 72,870	\$ 211,408	\$ 284,278
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 268,871	\$ 268,871
NON-CURRENT LIABILITIES			
Compensated absences	\$ 31,731	\$ 0	\$ 31,731
Notes payable	18,091	0	18,091
Revenue bonds payable	0	4,002,129	4,002,129
Unfunded accrued actuarial pension liability	469,131	0	469,131
TOTAL NON-CURRENT LIABILITIES	\$ 518,953	\$ 4,002,129	\$ 4,521,082
TOTAL LIABILITIES	\$ 591,823	\$ 4,482,408	\$ 5,074,231
NET ASSETS			
Invested in capital assets, net of related debt	\$ 428,518	\$ 4,583,924	\$ 5,012,442
Restricted for			
Prepaid expenses	60,711	0	60,711
Drug forfeitures	1,503	0	1,503
Bond discount	0	9,025	9,025
Debt service	20,675	0	20,675
Repair and reconstruction	0	82,135	82,135
Unrestricted	103,344	949,940	1,053,284
TOTAL NET ASSETS	\$ 614,751	\$ 5,625,024	\$ 6,239,775

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended September 30, 2005

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES		CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
		OPERATING GRANTS AND CONTRIBUTIONS			GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities							
Legislative	\$ 10,605	\$ 0	\$ 0	0	\$ (10,605)	\$	\$ (10,605)
General government	903,470	32,580	0	0	(870,890)		
Public safety	335,212	0	0	0	(335,212)		(335,212)
Public works	353,690	0	0	0	(353,690)		(353,690)
Parks and recreation	135,404	126,922	0	0	(8,482)		(8,482)
Community betterment	33,587	0	0	0	(33,587)		(33,587)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 1,771,969	\$ 159,502	\$ 0	0	\$ (1,612,467)	\$	\$ (741,576)
Business-Type Activities							
Television	\$ 180,502	\$ 215,890	\$ 0	0	\$	\$ 35,388	\$ 35,388
Electric	1,324,400	1,601,661				277,261	277,261
Water	189,756	325,394				135,638	135,638
Sewer	448,070	345,249	0	0		(102,821)	(102,821)
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 2,142,728	\$ 2,488,194	\$ 0	0	\$	\$ 345,466	\$ 345,466
GENERAL REVENUES							
Property taxes					\$ 302,719	\$ 0	\$ 302,719
State shared revenues and grants					415,358	0	415,358
Unrestricted investments earnings					34,634	28,201	62,835
Fines and forfeitures					2,375	0	2,375
Other					87,281	0	87,281
TRANSFERS					374,044	(374,044)	0
TOTAL GENERAL REVENUES AND TRANSFERS					\$ 1,216,411	\$ (345,843)	\$ 870,568
CHANGE IN NET ASSETS							
Net assets - beginning					\$ (396,056)	\$ (377)	\$ (396,433)
					1,010,807	5,625,401	6,636,208
NET ASSETS - ENDING					\$ 614,751	\$ 5,625,024	\$ 6,239,775

The Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
September 30, 2005

ASSETS	GENERAL	MAJOR STREET	INDUSTRIAL PARK	NON-MAJOR GOVERNMENTAL FUNDS		
				ELECTRIC RESERVE & CONTINGENCY	GOVERNMENTAL FUND LOCAL STREETS	TOTAL GOVERNMENTAL FUNDS
Cash and equivalents	\$ 65,558	\$ 93,330	\$ 106,622	\$ 250,000	\$ 27,344	\$ 542,854
Investments	0	0	0	0	0	0
Accounts receivable	3,417	0	0	0	0	3,417
Due from other governmental units	105,615	22,285	0	0	8,859	136,759
Prepaid expenses	60,711	0	0	0	0	60,711
Bond discount	0	0	0	0	0	0
TOTAL ASSETS	\$ 235,301	\$ 115,615	\$ 106,622	\$ 250,000	\$ 36,203	\$ 743,741
LIABILITIES						
Accounts payable	\$ 45,182	\$ 0	\$ 0	\$ 0	\$ 425	\$ 45,607
Accrued payroll expense	11,301	80	0	0	553	11,934
Accrued taxes and withholdings	0	0	0	0	0	0
Accrued benefits	12,745	0	0	0	0	12,745
Other liabilities	0	0	0	0	0	0
TOTAL LIABILITIES	\$ 69,228	\$ 80	\$ 0	\$ 0	\$ 978	\$ 70,286
FUND BALANCES						
Reserved for						
Prepaid expenses	\$ 60,711	\$ 0	\$ 0	\$ 0	\$ 0	\$ 60,711
Drug forfeitures	1,503	0	0	0	0	1,503
Debt service	0	0	20,675	0	0	20,675
Unreserved	103,859	115,535	85,947	250,000	35,225	590,566
TOTAL FUND EQUITY	\$ 166,073	\$ 115,535	\$ 106,622	\$ 250,000	\$ 35,225	\$ 673,455
TOTAL LIABILITIES AND FUND EQUITY	\$ 235,301	\$ 115,615	\$ 106,622	\$ 250,000	\$ 36,203	\$ 743,741

The Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
September 30, 2005

Total fund balance - total governmental funds	\$ 673,455
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	462,833
Long term liabilities:	
Accumulated employee vacation pay not used in current period	(31,731)
Notes payable on Industrial Park Infrastructure	(20,675)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(469,131)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u>614,751</u>

CITY OF CRYSTAL FALLS
ALL GOVERNMENTAL FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year ended September 30, 2005

					ELECTRIC RESERVE & CONTINGENCY		NON-MAJOR GOVERNMENTAL FUND		TOTAL GOVERNMENTAL FUNDS		
	GENERAL		MAJOR STREET		INDUSTRIAL PARK		LOCAL STREETS				
REVENUES											
General property taxes	\$	302,719	\$	0	\$	0	\$	0	\$	302,719	
State shared revenues and grants		226,316		124,980		0		64,062		415,358	
Charges for services		159,502		0		0		0		159,502	
Fines and forfeitures		2,375		0		0		0		2,375	
Interest and rentals		103,573		0		2,069		2,498		108,140	
Other		28,339		58,942		0		0		87,281	
TOTAL REVENUES		\$	822,824	\$	183,922	\$	2,069	\$	64,062	\$	1,075,375
EXPENDITURES											
Legislative	\$	10,605	\$	0	\$	0	\$	0	\$	10,605	
General government		500,022		6,735		0		5,364		512,121	
Public safety		333,588		0		0		0		333,588	
Public works		203,698		109,398		0		71,657		384,753	
Parks and recreation		128,821		0		0		0		128,821	
Community betterment		33,587		0		0		0		33,587	
Debt service		0		0		2,584		0		2,584	
Capital outlay		11,294		0		0		0		11,294	
TOTAL EXPENDITURES		\$	1,221,615	\$	116,133	\$	2,584	\$	77,021	\$	1,417,353
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES											
	\$	(398,791)	\$	67,789	\$	(515)	\$	(12,959)	\$	(341,978)	
OTHER FINANCING SOURCES (USES)											
Transfer from other funds	\$	355,000	\$	0	\$	0	\$	31,000	\$	405,044	
Transfer to other funds		0		(31,000)		0		0		(31,000)	
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES		\$	(43,791)	\$	36,789	\$	(515)	\$	18,041	\$	32,066
Fund balance - beginning			209,864		78,746		107,137		17,184		641,389
FUND BALANCE - ENDING		\$	166,073	\$	115,535	\$	106,622	\$	35,225	\$	673,455

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended September 30, 2005

Net change in fund balance - total governmental funds	\$ 32,066
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation	(48,669)
Payments on long term debt; these expenditures are reflected as a reduction of liabilities on government-wide statements and an expenditure in the governmental fund statements	2,584
Increases in accumulated employee vacation are recorded when earned in the Statement of Activities	(2,019)
Rental of equipment recorded as income and expenditures in the various governmental funds and eliminated in the Statement of Activities	0
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(380,018)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>(396,056)</u></u>

CITY OF CRYSTAL FALLS
STATEMENT OF NET ASSETS
BUSINESS TYPE FUNDS
September 30, 2005

	TELEVISION UTILITY	ELECTRIC UTILITY	WATER UTILITY	SEWER UTILITY	TOTAL
ASSETS					
Current Assets:					
Cash and equivalents	\$ 49,478	\$ 197,255	\$ 149,596	\$ 121,273	\$ 517,602
Accounts receivable	<u>0</u>	<u>220,377</u>	<u>631</u>	<u>14,839</u>	<u>235,847</u>
TOTAL CURRENT ASSETS	\$ 49,478	\$ 417,632	\$ 150,227	\$ 136,112	\$ 753,449
Restricted Assets	\$ 0	\$ 139,785	\$ 0	\$ 234,906	\$ 374,691
Property, Plant and Equipment:					
Utility plant and equipment	\$ 150,069	\$ 1,754,226	\$ 262,616	\$ 8,588,882	\$ 10,755,793
Less accumulated depreciation	<u>(69,737)</u>	<u>(350,159)</u>	<u>(174,136)</u>	<u>(1,306,837)</u>	<u>(1,900,869)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 80,332	\$ 1,404,067	\$ 88,480	\$ 7,282,045	\$ 8,854,924
Other Assets:					
Bond Discount	\$ 0	\$ 9,025	\$ 0	\$ 0	\$ 9,025
Investments	<u>0</u>	<u>115,343</u>	<u>0</u>	<u>0</u>	<u>115,343</u>
TOTAL OTHER ASSETS	\$ 0	\$ 124,368	\$ 0	\$ 0	\$ 124,368
TOTAL ASSETS	\$ 129,810	\$ 2,085,852	\$ 238,707	\$ 7,653,063	\$ 10,107,432
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 12,047	\$ 38,539	\$ 7,802	\$ 2,581	\$ 60,969
Salaries and wages payable	1,025	16,807	1,059	810	19,701
Sales tax payable	0	3,844	0	0	3,844
Interest payable	0	13,643	0	12,743	26,386
Customer deposits	0	23,508	0	0	23,508
Current portion of long term debt	<u>0</u>	<u>30,000</u>	<u>0</u>	<u>47,000</u>	<u>77,000</u>
TOTAL CURRENT LIABILITIES	\$ 13,072	\$ 126,341	\$ 8,861	\$ 63,134	\$ 211,408
Long Term Liabilities	\$ 0	\$ 920,000	\$ 0	\$ 3,351,000	\$ 4,271,000
TOTAL LIABILITIES	\$ 13,072	\$ 1,046,341	\$ 8,861	\$ 3,414,134	\$ 4,482,408
NET ASSETS					
Invested in capital assets - net of related debt	\$ 80,332	\$ 484,067	\$ 88,480	\$ 3,931,045	\$ 4,583,924
Restricted for bond discount	0	9,025	0	0	9,025
Restricted for debt service	0	114,724	0	154,147	268,871
Restricted for future construction and improvements	0	1,376	0	80,759	82,135
Unrestricted	<u>36,406</u>	<u>430,319</u>	<u>141,366</u>	<u>72,978</u>	<u>681,069</u>
TOTAL NET ASSETS	\$ 116,738	\$ 1,039,511	\$ 229,846	\$ 4,238,929	\$ 5,625,024

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUSINESS TYPE FUNDS
Year ended September 30, 2005

	<u>TELEVISION UTILITY</u>	<u>ELECTRIC UTILITY</u>	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES					
User charges	\$ 211,632	\$ 1,570,935	\$ 325,394	\$ 345,249	\$ 2,453,210
Other	<u>4,258</u>	<u>30,726</u>	<u>0</u>	<u>0</u>	<u>34,984</u>
TOTAL OPERATING REVENUES	\$ 215,890	\$ 1,601,661	\$ 325,394	\$ 345,249	\$ 2,488,194
OPERATING EXPENSES					
General and administrative					
Salaries and wages	\$ 394	\$ 39,819	\$ 17,329	\$ 13,625	\$ 71,167
Employee benefits	30	1,796	1,253	7,661	10,740
Contracted services	0	1,520	950	1,072	3,542
Transmission, distribution and maintenance					
Salaries and wages	17,872	108,549	48,018	36,720	211,159
Employee benefits	8,304	59,466	35,515	20,775	124,060
Supplies	738	38,449	40,293	12,780	92,260
Contracted services	141,060	721,107	34,489	16,109	912,765
Other	3,273	17,769	6,657	8,491	36,190
Power plant					
Salaries and wages	0	107,535	0	0	107,535
Employee benefits	0	128,355	0	0	128,355
Supplies	0	3,638	0	0	3,638
Contracted services	0	289	0	0	289
Other	0	3,666	0	0	3,666
Depreciation	8,831	54,338	5,252	176,071	244,492
Interest and fees	<u>0</u>	<u>38,104</u>	<u>0</u>	<u>154,766</u>	<u>192,870</u>
TOTAL OPERATING EXPENSES	\$ 180,502	\$ 1,324,400	\$ 189,756	\$ 448,070	\$ 2,142,728
OPERATING INCOME (LOSS)	\$ 35,388	\$ 277,261	\$ 135,638	\$ (102,821)	\$ 345,466
NON-OPERATING INCOME (EXPENSE)					
Interest	\$ 0	\$ 20,460	\$ 1,470	\$ 6,271	\$ 28,201
NON-OPERATING TRANSFERS					
To other funds	\$ <u>0</u>	\$ <u>(244,044)</u>	\$ <u>(130,000)</u>	\$ <u>0</u>	\$ <u>(374,044)</u>
NET INCOME (LOSS)	\$ 35,388	\$ 53,677	\$ 7,108	\$ (96,550)	\$ (377)
Net assets - beginning	<u>81,350</u>	<u>985,834</u>	<u>222,738</u>	<u>4,335,479</u>	<u>5,625,401</u>
NET ASSETS - ENDING	\$ <u>116,738</u>	\$ <u>1,039,511</u>	\$ <u>229,846</u>	\$ <u>4,238,929</u>	\$ <u>5,625,024</u>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
STATEMENT OF CASH FLOWS
BUSINESS TYPE FUNDS
Year ended September 30, 2005

	TELEVISION UTILITY	ELECTRIC UTILITY	WATER UTILITY	SEWER UTILITY	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 211,632	\$ 1,595,452	\$ 324,763	\$ 335,979	\$ 2,467,826
Payments to suppliers	(140,596)	(754,653)	(79,495)	(39,890)	(1,014,634)
Payments to or on behalf of employees	(25,863)	(466,150)	(101,833)	(79,733)	(673,579)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 45,173	\$ 374,649	\$ 143,435	\$ 216,356	\$ 779,613
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfer from (to) other funds	0	(244,044)	(130,000)	0	(374,044)
Loans from (repaid to) other funds	0	0	0	0	0
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ 0	\$ (244,044)	\$ (130,000)	\$ 0	\$ (374,044)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Payments on capital debt	\$ 0	\$ (27,397)	\$ 0	\$ (199,934)	\$ (227,331)
Purchases of capital assets	(7,741)	(660,490)	0	(1,500)	(669,731)
Funding of restricted accounts	0	620,876	0	(31,617)	589,259
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (7,741)	\$ (67,011)	\$ 0	\$ (233,051)	\$ (307,803)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earned	\$ 0	\$ 20,460	\$ 1,471	\$ 6,271	\$ 28,202
Investments purchased	0	(4,659)	0	0	(4,659)
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	\$ 0	\$ 15,801	\$ 1,471	\$ 6,271	\$ 23,543
NET INCREASE (DECREASE) IN CASH	\$ 37,432	\$ 79,395	\$ 14,906	\$ (10,424)	\$ 121,309
Cash and equivalents - beginning	12,046	117,860	134,690	131,697	396,293
CASH AND EQUIVALENTS - ENDING	\$ 49,478	\$ 197,255	\$ 149,596	\$ 121,273	\$ 517,602
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 35,388	\$ 277,261	\$ 135,638	\$ (102,821)	\$ 345,466
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation	8,831	54,338	5,252	176,071	244,492
Capital interest and fees	0	38,104	0	154,766	192,870
Change in Assets and Liabilities					
Receivables - net	0	(6,159)	(631)	(9,270)	(16,060)
Accounts payable	217	31,785	2,894	(1,438)	33,458
Accrued salaries and wages	737	(4,891)	282	(952)	(4,824)
Accrued benefits	0	(15,739)	0	0	(15,739)
Accrued sales tax	0	(50)	0	0	(50)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 45,173	\$ 374,649	\$ 143,435	\$ 216,356	\$ 779,613

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
September 30, 2005

	<u>PERPETUAL CEMETERY CARE</u>	<u>TAX COLLECTIONS</u>	<u>TOTAL</u>
ASSETS			
Cash and equivalents	\$ 18,079	\$ 0	\$ 18,079
Investments	0	0	0
Accounts receivable	<u>236</u>	<u>0</u>	<u>236</u>
TOTAL ASSETS	\$ <u>18,315</u>	\$ <u>0</u>	\$ <u>18,315</u>

LIABILITIES AND FUND EQUITY

Liabilities			
Due to other funds	\$ 0	\$ 0	\$ 0
Due to other governmental units	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	\$ 0	\$ 0	\$ 0
Fund Equity			
Fund balance - reserved	\$ 17,460	\$ 0	\$ 17,460
Fund balance - unreserved	<u>855</u>	<u>0</u>	<u>855</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>18,315</u>	\$ <u>0</u>	\$ <u>18,315</u>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
Year ended September 30, 2005

	<u>Perpetual Care Fund</u>
REVENUES	
Perpetual care fees	\$ 4,425
Interest income	<u>240</u>
TOTAL REVENUES	\$ 4,665
TRANSFERS - (to) other funds	\$ <u>0</u>
EXCESS OF REVENUES OVER (UNDER) TRANSFERS	\$ 4,665
Fund balance - beginning	<u>13,650</u>
FUND BALANCE - RESTRICTED - ENDING	<u><u>18,315</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Crystal Falls (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements represent the entire government as the City does not have any component units that are required to be presented, either discretely or blended.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on December 1 are payable in one installment by the last day of February of the ensuing year without penalty. The City bills and collects its own property taxes and also taxes for Iron County and the Crystal Falls Community District Library. Collections and remittances of county and library taxes are accounted for in the Tax Collection Fund. City real property taxes are recognized when levied and personal property taxes are recognized when received.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 16.50 mills generating net tax collections of 302,719 that is recorded in the general fund.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Industrial Park Fund accounts for the receipts and expenditures associated with improvements to the designated Industrial Park as well as outstanding loan/grant activities.

The Electric Reserve and Contingency Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities in the Electric Department with a cost of not less than \$25,000.00. The City Charter requires a transfer of ten percent of the net income before transfers of the Electric Fund be made annually to the Fund but not less than \$10,000 up to maximum accumulation of \$250,000.00 unless a higher maximum accumulation is approved by the City Council.

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The government reports the following major proprietary funds:

The Television Fund accounts for the activities of the community television/internet system.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The utility funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the utility systems. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. In addition, the deposits placed on account by utility customers are also classified as restricted.

Capital Assets— Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City has elected not to report its infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the City is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Television/Internet	5 to 25 years
Electric System	5 to 40 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Compensatory and Sick Leave)– It is the government’s policy to permit employees to accumulate earned but unused vacation, compensatory and sick pay benefits. The City does not have a determinable liability for unpaid accumulated sick leave since the government has a policy not to pay any portion of the accumulated benefits to employees upon separation from service. All vacation and compensary leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity– In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

The City Council adopted an amendment to its budget, changing budgeted amounts to the actual expenditure balance if the initially adopted amounts lagged the expenditures. As a result, no expenditures exceeded the budgetary amounts.

NOTE C - ACCUMULATED UNRESERVED/UNDESIGNATED FUND DEFICITS

The City does not have any funds with an accumulated unreserved/undesignated fund balance/retained earnings deficit as of September 30, 2005.

NOTE D - CASH AND EQUIVALENTS

At year end, the carrying amount of the City's deposits (checking, savings, money market and short term certificates of deposit) was \$1,926,529. The City's deposits are in accordance with statutory authority. The bank balance is classified as to credit risk as follows:

Amount insured by the F.D.I.C.	\$ 200,000
Amount uninsured and uncollateralized	<u>860,456</u>
TOTAL CASH	<u>\$ 1,060,456</u>

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE E - INVESTMENTS

The City adopted an investment policy pursuant to state law. The investments were held in a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$115,343 as of the September 30, 2005, and expects to receive an ongoing return of 12% per annum.

NOTE F - LONG TERM DEBT

1998 SEWER UTILITY SYSTEM REVENUE BOND

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
March 1, 2006	\$ 76,455	\$ 0	\$ 76,455
September 1, 2006	123,455	47,000	76,455
March 1, 2007	75,398	0	75,398
September 1, 2007	124,398	49,000	75,398
March 1, 2008	74,295	0	74,295
September 1, 2008	125,295	51,000	74,295
March 1, 2009	73,148	0	73,148
September 1, 2009	126,148	53,000	73,148
March 1, 2010	71,955	0	71,955
September 1, 2010	127,955	56,000	71,955
2011 - 2038	<u>5,587,210</u>	<u>3,142,000</u>	<u>2,445,210</u>
	<u>\$ 6,585,710</u>	<u>\$3,398,000</u>	<u>\$ 3,187,710</u>

A Sewer System Revenue Bond was issued for \$3,673,000 dated September 23, 1998. The bond requires annual principal payments as scheduled above and bears interest at the rate of 4.5% per annum. Interest is payable semiannually on March 1 and September 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

1999 ECONOMIC DEVELOPMENT FINANCING AGREEMENT

On January 1, 1999, the City received Community Development Block Grant money in the form of a partially forgivable loan in the amount of \$232,591. These funds were disbursed as infrastructure improvements were completed and invoiced. The City pledged \$105,000 of its Certificates of Deposit and its State Shared Revenues as collateral on this loan.

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE F - LONG TERM DEBT (CONTINUED)

1999 ECONOMIC DEVELOPMENT FINANCING AGREEMENT (CONTINUED)

During the year, the City requested and received the maximum offset for new jobs created per the loan terms. This amounted to forgiveness of all of the accrued interest and ninety percent of the principal. The repayment of the loan began in January, 2005 with annual principal payments of \$2,584.34 over a ten year period of time with no interest charged.

2004 ELECTRIC UTILITY SYSTEM REVENUE BOND

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
November 1, 2005	\$ 50,464	\$ 30,000	\$ 20,464
May 1, 2006	19,939	0	19,939
November 1, 2006	49,938	30,000	19,938
May 1, 2007	19,414	0	19,414
November 1, 2007	54,414	35,000	19,414
May 1, 2008	18,758	0	18,758
November 1, 2008	53,757	35,000	18,757
May 1, 2009	18,101	0	18,101
November 1, 2009	53,101	35,000	18,101
May 1, 2010	16,601	0	16,601
2010 - 2024	<u>1,067,829</u>	<u>785,000</u>	<u>282,829</u>
	<u>\$ 1,423,116</u>	<u>\$ 950,000</u>	<u>\$ 473,116</u>

An Electric System Revenue Bond was issued for \$950,000 dated September 1, 2004 at a 1% discount. The bond requires annual principal payments as scheduled above and bears interest at rates varying from of 3.5% to 5.0% per annum. Interest is payable semiannually on May 1 and November 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE G - ACCUMULATED VACATION AND SICK PAY

Sick days can accumulate to a maximum of 100 days, and are forfeited upon termination. As of September 30, 2005, the accumulated sick leave liability approximates \$ 178,268. Annual leave can accumulate to a maximum of 24 days and may exceed this amount with City Council approval. Upon termination, a cash payout of the accumulated days at the employee's present hourly rate occurs. As of September 30, 2005, the estimated liability for unused vacation leave is \$ 44,641.

NOTE H - INTERFUND TRANSFERS

The following interfund transfers were recorded during the year and are reflected in the financial statements.

Transfer from	Transfer to	Amount
Electric	General	\$ 225,000
Water	General	130,000
Major Streets	Local Streets	31,000
Electric	Electric Reserve	19,044

NOTE I - INTERFUND RECEIVABLES/PAYABLES

As of September 30, 2005, the City had no interfund receivables and payables.

NOTE J - PENSION PLAN

The City contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits range are 2.5% of final average compensation for their last five years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present

CITY OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually for beneficiaries.

GASB 25 INFORMATION (as of 12/31/04)

Actuarial Accrued Liability:

Retiree and beneficiaries currently receiving benefits	\$ 2,555,272
Terminated employees not yet receiving benefits	33,433
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions including allocated investment income	47,328
Employer financed	<u>3,176,389</u>
Total Actuarial Liability	\$ 5,812,422
Net assets available for benefits, at actuarial value	<u>5,343,291</u>
(Market Value is \$5,215,690)	
Unfunded (overfunded) actuarial accrued liability	\$ 469,131

GASB 27 INFORMATION (as of 12/31/04)

Fiscal year beginning	July 1, 2006
Annual required contributions (ARC)	\$ 107,832
Amortization factor used	0.053632

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

NOTE K - RISK MANAGEMENT

The City of Crystal Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Crystal Falls maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended September 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 209,864	\$ 209,864	\$ 209,864	\$ 0
Resources (Inflows)				
Property taxes	292,200	292,200	302,719	10,519
State shared revenues and grants	175,000	175,000	226,316	51,316
Fines and forfeitures	1,000	1,000	2,375	1,375
Charges for services	171,900	171,900	159,502	(12,398)
Interest and rentals	29,000	101,000	103,573	2,573
Other	47,600	47,600	28,339	(19,261)
Transfer from other funds	<u>761,150</u>	<u>355,000</u>	<u>355,000</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>1,687,714</u>	\$ <u>1,353,564</u>	\$ <u>1,387,688</u>	\$ <u>34,124</u>
Charges to Appropriations (Outflows)				
Legislative				
City council	\$ 8,700	\$ 8,700	\$ 7,931	\$ 769
Mayor	2,700	2,700	2,674	26
General Government				
City manager	26,500	26,500	18,227	8,273
Elections	7,000	7,000	886	6,114
Administration	456,050	301,050	298,185	2,865
Clerk	18,400	18,400	10,091	8,309
Assessor	8,500	8,500	8,200	300
Audit/attorney	14,000	14,000	11,917	2,083
Board of review	4,200	4,700	4,641	59
Treasurer	7,500	7,500	6,808	692
Buildings	84,700	84,700	77,010	7,690
Cemetery	55,300	64,100	64,057	43
Public Safety				
Police	248,600	248,600	233,026	15,574
Fire	110,000	110,000	100,562	9,438
Public Works				
Maintenance	181,650	177,850	163,365	14,485
Street lighting	37,000	40,500	40,333	167
Parks and Recreation				
Parks	21,000	28,600	28,571	29
Softball field	200	200	157	43
Golf course	100,200	100,200	95,105	5,095
Ski hill	15,050	15,050	4,988	10,062
Community betterment				
Downtown development	5,300	5,300	432	4,868
Other	24,300	33,200	33,155	45
Capital outlay	<u>41,000</u>	<u>11,800</u>	<u>11,294</u>	<u>506</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>1,477,850</u>	\$ <u>1,319,150</u>	\$ <u>1,221,615</u>	\$ <u>97,535</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>209,864</u>	\$ <u>34,414</u>	\$ <u>166,073</u>	\$ <u>131,659</u>

CITY OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended September 30, 2005

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 78,746	\$ 78,746	\$ 78,746	\$ 0
Resources (Inflows)				
State shared revenues and grants	110,000	110,000	124,980	14,980
Other	<u>56,000</u>	<u>56,000</u>	<u>58,942</u>	<u>2,942</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 244,746	\$ 244,746	\$ 262,668	\$ 17,922
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Route maintenance	108,280	23,630	6,360	17,270
Drainage, sweeping and flushing	3,400	3,400	2,430	970
Trees and shrubs	3,300	4,450	4,443	7
Roadside betterment	220	1,170	1,160	10
Signs and signals	110	110	38	72
Winter maintenance	22,200	44,100	44,078	22
Administration and engineering	5,100	6,750	6,735	15
Trunk line maintenance:				0
Route maintenance	1,210	7,410	7,369	41
Drainage, sweeping and flushing	2,120	2,120	2,073	47
Trees and shrubs	660	660	396	264
Roadside betterment	680	680	562	118
Signs and signals	220	1,020	992	28
Winter maintenance	18,500	39,500	39,497	3
Administration and engineering	0	0	0	
Transfer to other funds	<u>0</u>	<u>31,000</u>	<u>31,000</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>166,000</u>	\$ <u>166,000</u>	\$ <u>147,133</u>	\$ <u>18,867</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>78,746</u>	\$ <u>78,746</u>	\$ <u>115,535</u>	\$ <u>36,789</u>

CITY OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
INDUSTRIAL PARK FUND
Year ended September 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 107,137	\$ 107,137	\$ 107,137	\$ 0
Resources (Inflows)				
Interest earned	2,000	2,000	2,069	69
Land sales	4,000	4,000	0	(4,000)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 113,137	\$ 113,137	\$ 109,206	\$ (3,931)
Charges to Appropriations (Outflows)				
Site improvements	\$ 6,000	\$ 6,000	\$ 0	\$ 6,000
Administration	0	0	0	0
Debt service	0	2,585	2,584	1
Transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>6,000</u>	\$ <u>8,585</u>	\$ <u>2,584</u>	\$ <u>6,001</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>107,137</u>	\$ <u>104,552</u>	\$ <u>106,622</u>	\$ <u>2,070</u>

CITY OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
ELECTRIC RESERVE AND CONTINGENCY FUND
Year ended September 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 228,458	\$ 228,458	\$ 228,458	\$ 0
Resources (Inflows)				
Interest earned	0	0	2,498	2,498
Transfers from other funds	<u>51,755</u>	<u>0</u>	<u>19,044</u>	<u>19,044</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 280,213	\$ 228,458	\$ 250,000	\$ 21,542
Charges to Appropriations (Outflows)				
Capital outlay	\$ 0	\$ 0	\$ 0	\$ 0
Transfers to other funds	<u>51,755</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>51,755</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>228,458</u></u>	\$ <u><u>228,458</u></u>	\$ <u><u>250,000</u></u>	\$ <u><u>21,542</u></u>

CITY OF CRYSTAL FALLS
MERS PENSION FUNDING AND STATISTICS
SEPTEMBER 30, 2005

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-02	4,950,071	4,997,024	46,953	99%	1,151,266	4%
31-Dec-03	5,146,395	5,235,508	89,113	98%	1,090,169	8%
31-Dec-04	5,343,291	5,812,422	469,131	92%	1,014,620	46%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-02	0	100%
31-Dec-03	27,716	100%
31-Dec-04	76,899	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.66%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL
INFORMATION

CITY OF CRYSTAL FALLS
SEWER UTILITY FUND
BALANCE SHEET
September 30, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash and equivalents	\$ 121,273	\$ 131,697
Accounts receivable	14,839	5,569
Due from other governmental units	<u>0</u>	<u>0</u>
TOTAL CURRENT ASSETS	\$ 136,112	\$ 137,266
Restricted Assets:		
Bond interest and redemption	\$ 154,147	\$ 131,495
Repair and replacement	<u>80,759</u>	<u>71,794</u>
TOTAL RESTRICTED ASSETS	\$ 234,906	\$ 203,289
Property, Plant and Equipment:		
Sewage plant, lines and vehicles	\$ 8,588,882	\$ 8,587,382
Less accumulated depreciation	<u>(1,306,837)</u>	<u>(1,130,766)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 7,282,045	\$ 7,456,616
TOTAL ASSETS	<u>\$ 7,653,063</u>	<u>\$ 7,797,171</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,581	\$ 4,019
Salaries and wages payable	810	1,762
Due to other funds	0	0
Interest payable	12,743	12,911
Current portion of long term debt	<u>47,000</u>	<u>45,000</u>
TOTAL LIABILITIES	\$ 63,134	\$ 63,692
LONG TERM LIABILITIES - Bonds payable	\$ 3,351,000	\$ 3,398,000
FUND EQUITY		
Contributed capital	\$ 4,029,247	\$ 4,113,725
Retained earnings:		
Restricted	234,906	203,289
Unrestricted, undesignated	<u>(25,224)</u>	<u>18,465</u>
TOTAL FUND EQUITY	\$ 4,238,929	\$ 4,335,479
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 7,653,063</u>	<u>\$ 7,797,171</u>

CITY OF CRYSTAL FALLS
SEWER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL AND BUDGET
Years ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
User charges	\$ 345,249	\$ 343,688
Other	<u>0</u>	<u>162</u>
TOTAL OPERATING REVENUES	\$ 345,249	\$ 343,850
OPERATING EXPENSES		
General and administrative	\$ 22,358	\$ 30,253
Transmission, distribution and maintenance	94,875	70,420
Depreciation	91,593	88,909
Interest	<u>154,766</u>	<u>156,709</u>
TOTAL OPERATING EXPENSES	\$ <u>363,592</u>	\$ <u>346,291</u>
OPERATING INCOME	\$ (18,343)	\$ (2,441)
NON-OPERATING INCOME - Interest	\$ <u>6,271</u>	\$ <u>5,731</u>
NET INCOME	\$ (12,072)	\$ 3,290
Retained earnings - Beginning of period	<u>221,754</u>	<u>218,464</u>
RETAINED EARNINGS - END OF PERIOD	<u>\$ 209,682</u>	<u>\$ 221,754</u>

CITY OF CRYSTAL FALLS
STATEMENT OF CASH FLOWS
SEWER UTILITY FUND
Year ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 335,979	\$ 344,993
Payments to suppliers	(39,890)	(23,335)
Payments to or on behalf of employees	<u>(79,733)</u>	<u>(76,374)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 216,356	\$ 245,284
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer (to) other funds	\$ 0	\$ 0
Loans received from (repaid to) other funds	<u>0</u>	<u>(15,000)</u>
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ 0	\$ (15,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	\$ (1,500)	\$ (75,923)
Payments on capital debt	(199,934)	(199,871)
Federal grant proceeds	0	49,473
Funding of restricted accounts	<u>(31,617)</u>	<u>(31,446)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (233,051)	\$ (257,767)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>6,271</u>	\$ <u>5,731</u>
NET INCREASE (DECREASE) IN CASH	\$ (10,424)	\$ (21,752)
Cash and equivalents - beginning	<u>131,697</u>	<u>153,449</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>121,273</u>	\$ <u>131,697</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ (18,343)	\$ (2,441)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	91,593	88,909
Capital interest and fees	154,766	156,709
Change in Assets and Liabilities		
Receivables - net	(9,270)	1,143
Due from other governmental units	0	0
Accounts payable	(1,438)	1,792
Accrued salaries and wages	<u>(952)</u>	<u>(828)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>216,356</u>	\$ <u>245,284</u>

CITY OF CRYSTAL FALLS
SEWER UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
General and Administrative:		
Salaries and wages	\$ 13,625	\$ 19,859
Employee benefits	7,661	9,514
Other	<u>1,072</u>	<u>880</u>
Total General and Administrative	\$ 22,358	\$ 30,253
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 36,720	\$ 31,230
Employee benefits	20,775	14,943
Supplies and other	<u>37,380</u>	<u>24,247</u>
Total Transmission, Distribution & Maintenance	\$ 94,875	\$ 70,420
Depreciation	91,593	88,909
Interest	<u>154,766</u>	<u>156,709</u>
Total Operating Expenses	\$ <u><u>363,592</u></u>	\$ <u><u>346,291</u></u>

CITY OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended September 30, 2005

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 17,184	\$ 17,184	\$ 17,184	\$ 0
Resources (Inflows)				
State shared revenues and grants	60,000	60,000	64,062	4,062
Transfer from other funds	<u>0</u>	<u>31,000</u>	<u>31,000</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 77,184	\$ 108,184	\$ 112,246	\$ 4,062
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Route maintenance	35,550	35,550	24,180	11,370
Drainage, sweeping and flushing	3,250	3,250	1,745	1,505
Trees and shrubs	3,300	9,250	9,207	43
Roadside betterment	500	3,600	3,552	48
Winter maintenance	13,700	33,000	32,973	27
Administration and engineering	3,700	5,400	5,364	36
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>60,000</u>	\$ <u>90,050</u>	\$ <u>77,021</u>	\$ <u>13,029</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>17,184</u>	\$ <u>18,134</u>	\$ <u>35,225</u>	\$ <u>17,091</u>

SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council
City of Crystal Falls
Crystal Falls, MI 49920

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crystal Falls, Michigan (City) as of and for the year ended September 30, 2005, which collectively comprise the City of Crystal Falls, Michigan's basic financial statements and have issued my report thereon dated November 23, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be

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detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated November 23, 2005.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

November 23, 2005

SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

City Council
City of Crystal Falls
401 Superior Avenue
Crystal Falls, MI 49920

In conjunction with the audit of the financial statements of the City of Crystal Falls, Michigan, as of and for the year ended September 30, 2005, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first comment is repeated from the prior audit period.

1. **OBSERVATION** - The City has developed a very effective equipment rental tracking system and the system is being effectively maintained for the street funds. The City, however, is not recording these charges to the various utility funds.

RECOMMENDATION - I recommend that the City begin tracking equipment rentals to the utility funds in addition to the street funds. Additionally, the charges to each of the funds should be recorded not less than quarterly in the financial records of the City.

2. **OBSERVATION** - Income received by the City for copies of police department accident reports is used as petty cash by the Police Department.

RECOMMENDATION - I recommend that all monies received by the City be receipted and deposited by the City Treasurer. If petty cash is required for any department of the City, it should be established and accounted for using proper accounting controls.

3. **OBSERVATION** - The City has not adopted an equipment/capital project capitalization policy. This policy is intended to define the items that are to be capitalized in the financial records of the City. Several items with minimal costs were originally charged to equipment accounts and subsequently were reclassified.

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3. **RECOMMENDATION** - I recommend the City adopt a capitalization policy. The policy will provide guidance to the Council and the various levels of management to use in properly classifying equipment and supply items.

4. **OBSERVATION** - During the year, the Sewer Fund experienced a net operating loss and negative cash flow.

RECOMMENDATION - I recommend that the Sewer Fund financial operations be evaluated and the rates be increased, if necessary, to eliminate the loss and negative cash flows.

5. **OBSERVATION** - Some merchandise (signs) was purchased by the City and installed by the City crew for the benefit of a single business enterprise. The cost of the signs were subsequently reimbursed by the business to the City. Since the City is sales tax exempt, the amount of the sales tax and the cost of the crew to install the signs were not reimbursed.

RECOMMENDATION - I recommend that the City not purchase and resell any merchandise except concession type items in the future. I further recommend that any service provided for the benefit of one business enterprise be charged for and collected as is the normal City practice.

6. **OBSERVATION** - Several employees received benefits or reimbursements that were not individually approved by the City Council and are not part of the Council approved employment policies. These included free golf memberships (two employees), compensation time for being on call at the power plant (electric department employees) and cell phone reimbursement (one employee).

RECOMMENDATION - Since setting employee compensation and employment policies are the responsibility of the City Council, I recommend that these items and any similar future items be individually considered and approved by the City Council. Further, the City Treasurer and I have discussed the reporting requirements for these items to the individual employees and the federal and state government.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Chuck, Dorothea, Mark and the Department Heads for their assistance during the audit.


Certified Public Accountant

November 23, 2005